

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**MILITARY TRAFFIC MANAGEMENT COMMAND
FINANCIAL REPORTING OF PROPERTY,
PLANT, AND EQUIPMENT**

Report No. 98-046

January 14, 1998

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Department of Defense

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Acronyms

DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
IG	Inspector General
MTMC	Military Traffic Management Command
PP&E	Property, Plant, and Equipment
USD(C)	Under Secretary of Defense (Comptroller)
USTRANSCOM	U.S. Transportation Command



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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January 14, 1998

**MEMORANDUM FOR COMMANDER IN CHIEF, U.S. TRANSPORTATION
COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Military Traffic Management Command Financial
Reporting of Property, Plant, and Equipment (Report No. 98-046)**

We are providing this audit report for your information and use. The audit was performed in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994.

Comments on a draft of this report from the Chief of Staff, Military Traffic Management Command, and the Deputy Director for Accounting, Defense Finance and Accounting Service, were considered in preparing this report. Management comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. James L. Kornides, Audit Program Director, at (614) 751-1400, extension 11, or e-mail JKornides@DODIG.OSD.MIL or Mr. John K. Issel, Audit Project Manager, at (614) 751-1400, extension 12, or e-mail JIssel@DODIG.OSD.MIL. See Appendix C for the report distribution. The audit team members are listed on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-046
Project No. 5FJ-2011.04

January 14, 1998

Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment

Executive Summary

Introduction. The Military Traffic Management Command (MTMC) is a subordinate command of the U.S. Transportation Command, which was established in June 1987 as a unified command to integrate global air, land, and sea transportation. The MTMC provides traffic management, land transportation, common-user water terminals, and intermodal movements of passengers and cargo for DoD and other authorized users. Traffic management includes the direction, control, and supervision of all functions incident to the procurement and use of freight and passenger transportation services from commercial transportation companies. In FY 1996, the MTMC reported about \$423 million in revenue and \$387 million in property, plant, and equipment assets.

The audit was performed in response to the Chief Financial Officers Act of 1990 requirement for financial statement audits. This is the fifth and final in a series of reports on the Defense Business Operations Fund property, plant, and equipment accounts. The prior reports dealt with financial reporting of property, plant, and equipment in other Defense Business Operations Fund organizations. See Appendix B for details of those reports.

In December 1996, the Under Secretary of Defense (Comptroller) announced that the Defense Business Operations Fund would be divided into several working capital funds. This realignment does not affect the matters discussed in this report.

Audit Objectives. The overall audit objective was to determine whether the property, plant, and equipment accounts in the FY 1996 Defense Business Operations Fund consolidated financial statements were presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we reviewed the FY 1996 balances in the MTMC property, plant, and equipment accounts. We also assessed management controls as they applied to the overall audit objective.

Audit Results. The MTMC attempted to improve its reporting of property, plant, and equipment values for the FY 1996 Defense Business Operations Fund financial statements. To that end, MTMC reconciled logistics records with financial records, noted changes, and reported the changes to the Defense Finance and Accounting Service. However, \$183 million of the \$387 million reflected in the property, plant, and equipment accounts was not supported by documentation. Also, \$73.3 million (\$61.5 million in additions and \$11.8 million in decreases) of corrections to reported

property, plant, and equipment values, constituting a net financial statement error of \$49.7 million, were not processed by the Defense Finance and Accounting Service. As a result, the MTMC property, plant, and equipment accounts were materially misstated, and inaccurate financial data could be used to make management decisions. See Appendix A for details of the management control program.

The recommendations in this report, if implemented, will improve the reliability and usefulness of MTMC financial data reported in its property, plant, and equipment accounts. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that the Commander, Military Traffic Management Command, perform a complete review and inventory of property, plant, and equipment and reconcile the results with DFAS records. We recommend that the Director, Defense Finance and Accounting Service Denver Center, resolve the differences between the property, plant, and equipment asset accounts and the supporting documentation.

Management Comments. The Chief of Staff of the Military Traffic Management Command concurred with the finding and the recommendation to complete an inventory of property, plant, and equipment (PP&E) and reconcile the results with the Defense Finance and Accounting Service records. He also stated that MTMC will continue reconciliations of logistics and PP&E records. However, because of base realignment and closure and other reengineering actions, the Chief of Staff anticipated a delay in completing a full inventory until the year 2000. The Deputy Director for Accounting, Defense Finance and Accounting Service, concurred with the recommendation to resolve the differences between the asset accounts and the supporting documentation. He stated that once MTMC performed a complete inventory of its PP&E, Defense Finance and Accounting Service would ensure that the subsidiary ledgers support the information reflected in the general ledger accounts. See Part I for a summary of management comments and Part III for the complete text of those comments.

Audit Response. Comments from MTMC and the Defense Finance and Accounting Service were responsive. We realize that DoD base closures and realignments have affected the capability of MTMC to inventory its assets in an efficient manner. However, we believe that MTMC should take every action possible to obtain the needed inventory as soon as possible.

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Part I - Audit Results

Audit Background

U.S. Transportation Command and Military Traffic Management

Command. In 1987, the Secretary of Defense established the U.S. Transportation Command (USTRANSCOM), Scott Air Force Base, Illinois, as a unified command to integrate global air, land, and sea transportation during wartime. In 1992, the USTRANSCOM role was expanded to include a peacetime mission. This mission is executed through the three transportation components of the Military Departments: the Army's Military Traffic Management Command (MTMC), Falls Church, Virginia; the Navy's Military Sealift Command, Washington, D.C.; and the Air Force's Air Mobility Command, Scott Air Force Base, Illinois. USTRANSCOM exercises overall command of the three transportation components but has delegated operational control to each organization's commander.

The MTMC functions as the DoD single manager for traffic management. MTMC operates and manages common-user water terminals, administers freight movement within the United States, performs transportation engineering, administers the movement of intermodal containers, and manages all passenger traffic within the United States. For FY 1996, MTMC reported \$423 million in revenues. MTMC is almost exclusively funded from the Defense Business Operations Fund (DBOF).

Accounting Records. Accounting records for MTMC and USTRANSCOM are maintained by the Defense Finance and Accounting Service (DFAS) Denver Center, Denver, Colorado. The actual accounting work at the time of our audit was performed by the Defense Accounting Office at Bayonne, New Jersey. The accounting work was recently transferred to the Defense Accounting Office at Omaha, Nebraska. Before the creation of DFAS, MTMC maintained its own unique accounting systems and records at Bayonne. After DFAS assumed the accounting services, DFAS continued to use the MTMC unique accounting and property, plant, and equipment (PP&E) systems.

While DFAS provides the accounting services, the accuracy of information entered into financial systems and reported on financial statements is the responsibility of MTMC and USTRANSCOM. Preparation of financial statements is the joint responsibility of MTMC, USTRANSCOM, and DFAS.

MTMC Financial Reporting. MTMC produces, but does not publish, a separate set of financial statements. Its financial information is consolidated into the financial statements published by USTRANSCOM. The September 30, 1996, financial data produced for MTMC reflected a total of \$387 million (net of depreciation) for PP&E.

Audit Requirements. The audit was performed in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. This is the fifth and final in a series of reports on the Defense Business Operations Fund property, plant, and equipment accounts. The prior reports dealt with financial reporting issues concerning property, plant, and equipment in other Defense Business Operations Fund organizations. See Appendix B for details of those reports.

Defense Business Operations Fund. In October 1992, the Comptroller, DoD, now known as the Under Secretary of Defense (Comptroller) (USD[C]), incorporated USTRANSCOM into the DBOF. On December 11, 1996, the USD(C) redesignated the fund as the Transportation Working Capital Fund, with cash management under the Air Force Working Capital Fund starting in FY 1997. This realignment does not affect the matters discussed in this report because the new working capital funds will still have PP&E, and accountability over PP&E will continue to require management attention.

Audit Objectives

The primary objective of our overall audit was to determine whether the property, plant, and equipment accounts in the FY 1996 DBOF consolidated financial statements were presented fairly in accordance with the "other comprehensive basis of accounting" described in Office of Management and Budget Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993. For this portion of the audit, we reviewed the FY 1996 balances in the MTMC property, plant, and equipment accounts. We also assessed internal controls and compliance with laws and regulations as applicable to the overall audit objective. See Appendix A for a complete discussion of the scope, methodology, and management controls.

Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment

MTMC attempted to improve the accuracy of the \$387 million of property, plant, and equipment reported in the FY 1996 USTRANSCOM and DBOF financial statements. To that end, MTMC reconciled logistics records with financial records, noted changes, and reported the changes to DFAS. However, \$183 million of adjustments (\$182.2 million in asset increases, \$0.4 million in asset decreases, and \$0.2 million in depreciation adjustments) of the \$387 million (net of depreciation) reflected for MTMC property, plant, and equipment was unsupported by documentation. Additionally, \$73.3 million (\$61.5 million in additions and \$11.8 million in capital asset deletions and other decreases in asset values) of MTMC-identified corrections to property, plant, and equipment, constituting a net financial statement error of \$49.7 million, were not processed by DFAS. These conditions occurred because DFAS management controls were inadequate and allowed DFAS personnel to change the property, plant, and equipment general ledger accounts without adequate documentation and without modifying the property, plant, and equipment subsidiary ledgers. To compound financial reporting problems, the software system used for MTMC reporting was based on 1960s 80-column punch card technology, did not comply with DoD requirements, and prevented further progress in improving the accuracy of property, plant, and equipment financial reporting. As a result, the MTMC property, plant, and equipment accounts were materially misstated, and inaccurate financial data could be used to make management decisions.

Financial Reporting Policy

DoD 7000.14-R, "DoD Financial Management Regulation," volume 6, "Reporting Policy and Procedures," December 1994, requires DoD organizations to be responsible for:

1. Ensuring the accuracy, completeness, timeliness and documentary support for all data . . . submitted . . . for . . . inclusion in financial reports.
2. Establishing appropriate internal controls to assure the accuracy of data.
3. Reviewing all reports . . . to assess the accuracy of financial information being reported.

Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment

DoD 7000.14-R also specifies that DFAS will ensure that data provided by the customer (including data input to finance and accounting systems by the customer) are accurately and promptly recorded and processed in finance and accounting systems. This includes accounting operations performed on behalf of the customer and recording the results of those operations in a timely and accurate manner.

Corrective Actions

MTMC has taken positive actions to more accurately report its PP&E values for inclusion in USTRANSCOM and DBOF financial statements. For example, MTMC personnel reconciled logistics records of PP&E with PP&E financial records. Property custodians annotated changes to be made to the financial records and sent the listings to DFAS. These management control actions ensure that logistics records agree with financial records. However, other events adversely affected the accurate recording and reporting of PP&E values.

PP&E Data Changes

Of the \$387 million (net of depreciation) in PP&E reported for MTMC, \$183 million in adjustments to PP&E financial data made by DFAS was not adequately documented and corresponding adjustments required to supporting subsidiary records were not made. Additionally, \$73.3 million in needed corrections to PP&E records were not made. These errors occurred because:

- o DFAS made changes to PP&E general ledger records without adequate documentation and did not make necessary adjustments to supporting subsidiary records, and
- o DFAS did not process identified corrections to PP&E financial records.

Documentation and Subsidiary Records. PP&E financial statement data, taken from overall general ledger accounts, were not supported by data in the PP&E detailed subsidiary ledgers as required. Specifically, the PP&E values for MTMC reflected on FY 1996 financial statements showed \$343.8 million (net of depreciation); however, the supporting subsidiary ledgers reflected a net value of only \$161.8 million. The difference of \$182 million in capital asset values occurred because DFAS Defense Accounting Office personnel at Bayonne posted summary-level (that is, general journal voucher entries) changes to MTMC capital general ledger accounts without making required corresponding adjustments to the supporting subsidiary ledgers. Additionally, when we tried to verify the validity of the changes to PP&E values, which consisted of \$182.2 million in asset increases, \$0.4 million in asset decreases, and \$0.2 million in depreciation adjustments, DFAS personnel could not provide documentation to support the accuracy of the changes. Furthermore,

Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment

DFAS personnel maintaining the PP&E financial records of MTMC were aware of the differences as early as December 1994. But, as of February 1997, DFAS personnel had not acted to correct the deficiencies.

PP&E Identified Corrections. DFAS did not always make the required changes to MTMC's subsidiary ledgers for PP&E. In fact, at least \$73.3 million in FY 1996 changes identified by MTMC property officers and reported to DFAS were not made during FY 1996. MTMC personnel at the MTMC Eastern Area, Bayonne, New Jersey, reconciled logistics and financial records. Then they annotated \$61.5 million in additions and \$11.8 million in deletions and decreases in cost of capital assets on their reconciliation listings. The listings were then forwarded to Defense Accounting Office-Bayonne for updating the PP&E accounts. The Defense Accounting Office received the changes but did not enter them into the database. Defense Accounting Office personnel and managers could not explain why the changes were not made. DFAS personnel stated that Defense Accounting Office-Bayonne personnel were not capable or did not attempt to make the changes to the database. Defense Accounting Office operating personnel indicated that the system used to record PP&E for MTMC was difficult to operate.

MTMC Capital Asset Reporting System

The software system used to record MTMC assets contributed to inaccuracies in the PP&E accounts. The system did not accurately reflect the assets, did not comply with DoD reporting requirements, and prevented further progress in improving the accuracy of the PP&E accounts. Also, the MTMC annual statement of assurance reported that there were programming weaknesses in the system used to record capital assets.

Financial Management System (FMS). To record financial data, DFAS operates for MTMC a unique computer system designed in the 1960s called the Financial Management System (FMS). FMS has a subsystem that records PP&E. The data in the subsystem are based on 80-column punch card technology. If an asset costs more than \$9.9 million, the record is split into multiple items to accommodate the total cost. For example, the dry dock located at Bayonne, New Jersey, cost \$14 million to obtain and began operations in 1967. However, the FMS recorded that dry dock as two dry docks, each costing \$7 million with activation dates about 7 years apart. The effect was that two assets were indicated instead of one. Also, the depreciation expenses were miscalculated because the activation dates were entered incorrectly.

MTMC plans to obtain an improved PP&E financial data system. Therefore, we are not making any additional recommendations at this time.

Recommendations and Management Comments

1. We recommend that the Commander, Military Traffic Management Command, perform a complete review and inventory of its property, plant, and equipment and reconcile the results with the information in Defense Finance and Accounting System accounting records.

Management Comments. The Chief of Staff of the Military Traffic Management Command concurred with the reported finding and recommendation to complete an inventory of property, plant, and equipment (PP&E) and reconcile the results with the Defense Finance and Accounting Service records. He also stated that MTMC will continue reconciliations of logistics and PP&E records. However, because of base realignment and closure and other reengineering actions, the Chief of Staff anticipated a delay in completing a full inventory until the year 2000.

2. We recommend that the Director, Defense Finance and Accounting Service Denver Center, research the adjustments to Military Traffic Management Command property, plant, and equipment accounts and take corrective actions to ensure that the property, plant, and equipment subsidiary ledgers support the information reflected in the general ledger accounts.

Management Comments. The Deputy Director for Accounting, Defense Finance and Accounting Service, concurred with the recommendation. He stated that once MTMC performed a complete inventory of its PP&E, DFAS would ensure that the subsidiary ledgers support the information reflected in the general ledger accounts.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

During this part of our "Audit of Property, Plant, and Equipment Accounts in the FY 1996 Financial Statements of the Defense Business Operations Fund," we reviewed the \$387 million (net of depreciation) reported by the MTMC for property, plant, and equipment in FY 1996. We compared the reported balances to the support documents for the balances. We reviewed the actions taken by MTMC, USTRANSCOM, and DFAS to correct previously reported deficiencies in the PP&E accounts in the MTMC portion of the USTRANSCOM financial statements. We also reviewed MTMC procedures for reconciling financial records to logistics records and for updating the financial records and the Financial Management System subsystem for recording MTMC capital assets. Additionally, we reviewed DFAS procedures for recording MTMC PP&E and the reconciliation process between PP&E general ledger accounts and subsidiary ledgers.

Use of Computer-Processed Data. To assess the reliability of the computer-processed data, we compared the capital assets recorded on property records at selected MTMC organizations to the assets recorded in financial records. Additionally, we physically verified the property records against on-hand assets at selected locations. We found that the computer-processed data were incomplete and could not be relied on to accurately report, in annual financial statements, the value of PP&E belonging to MTMC.

Audit Type, Dates, and Standards. This financial-related audit was conducted from November 1996 through July 1997 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of MTMC and DFAS management controls over the accounting and reporting of PP&E. Specifically, we reviewed management controls established to ensure reliable and complete PP&E data were entered into financial systems

and that management controls were established to ensure that documentation was retained to support reported amounts. We reviewed management self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for MTMC and DFAS as defined by DoD Directive 5010.38. MTMC and DFAS controls over PP&E financial reporting were not adequate to ensure that the data were accurate and fully supported. Recommendations 1. and 2., if implemented, will improve the financial reporting of MTMC PP&E. A copy of the report will be provided to the senior official responsible for management controls in MTMC and DFAS.

Adequacy of Management's Self-Evaluation. MTMC and DFAS officials identified financial reporting of PP&E as an assessable unit and, in our opinion, correctly identified the risk as high.

MTMC and DFAS also reported the material weaknesses in financial systems and controls over PP&E in the Annual Statement of Assurance required by the Management Control Program. The following deficiencies were identified.

- o As a result of weaknesses in internal systems and procedures depreciation is likely to be computed incorrectly.
- o Property is misstated and not reconciled because asset reporting systems do not always provide complete and accurate information.
- o Reporting entities frequently rely on information from operational and logistics systems.
- o Management lacks assurance that source data are accurate.

Corrective actions, however, had not been taken because both MTMC and DFAS were still in the process of developing a plan to improve their controls over the financial reporting of PP&E.

Appendix B. Summary of Prior Coverage

Since FY 1992, the Inspector General (IG), DoD, and the U.S. Army Audit Agency have been unable to express opinions on the fairness of PP&E accounts for the DBOF organizations reviewed. The reports generally state that procedures and systems did not function properly and, therefore, the financial statements did not fairly present the data. The primary reports are summarized below.

IG, DoD, Report No. 98-008, "Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment," October 9, 1997. This report states that significant accounting and management control deficiencies still exist that prevent the accurate reporting of PP&E in the Fund's FY 1996 financial statements. Specifically, except for equipment-in-use assets, the Army and the Air Force could not produce reliable universe data for PP&E. The Army and Air Force estimated that the PP&E universe data that were not available represented about \$2 billion of assets, which was a material portion of the \$11.9 billion that DoD reported for PP&E in the Fund at the beginning of FY 1996. The incomplete universe data limited the scope of our audit and prevented us from forming a conclusion as to the accuracy of any PP&E value shown on the Fund's consolidated financial statements. Also, a statistical sample of the \$3.6 billion reported for equipment-in-use items indicated that \$274.6 million of the assets recorded could not be physically located and that \$555.2 million of the equipment reported could not be verified by supporting documentation. In addition, our judgment samples of the \$1.7 billion of real property and software developments reported by the Air Force and the Defense Logistics Agency indicated that those parts of the PP&E accounts were understated by at least \$1.2 billion. We recommended that the Assistant Secretaries of the Army and Air Force (Financial Management and Comptroller) establish a time-phased plan for the development of a reliable universe of capital assets used in the operations of business areas under the Defense Business Operations Fund, now the Working Capital Fund. Also, we recommended that the Under Secretary of Defense (Acquisition and Technology), in conjunction with the Under Secretary of Defense (Comptroller), direct all Defense Business Operations Fund organizations to retain supporting documentation for capital assets acquired after October 1, 1996, and that supporting documentation be retained until disposal of the capital assets. The Under Secretary of Defense (Comptroller) and the Army generally concurred with the recommendations and indicated that corrective actions were initiated. Comments were not received from the Air Force.

IG, DoD, Report No. 97-148, "Defense Logistics Agency Actions to Improve Property, Plant, and Equipment Financial Reporting," May 29, 1997. This report states that the Defense Logistics Agency (DLA) made significant progress toward correcting problems identified in prior audit reports. For example, the DLA required its organizations to perform inventories of all assets and to capitalize and record the inventories in financial records. This effort resulted in a \$1.3 billion increase in the property, plant, and equipment reported on the DLA financial statements for FY 1995. However, additional actions are needed. Three DLA organizations, including 50 separate activities

Appendix B. Summary of Prior Coverage

and locations, did not identify and report at least \$422.3 million of capital assets (\$386.9 million in real property and \$35.4 million in materials handling equipment). Consequently, the financial information used to report \$1.6 billion of property, plant, and equipment on the DLA financial statements for FY 1995 was understated by at least \$422.3 million. This understatement will also adversely affect the DLA FY 1996 financial statements.

We recommended that the Director, DLA, require DLA organizations that did not comply with DLA guidance and DoD policy to allocate sufficient resources to identify all property, plant, and equipment, including real property facilities used in business operations. The organizations should record the results of the inventory in financial records and should report financial information on real property in the annual financial statements. In addition, DLA needs to establish procedures to ensure that all assets are entered into the Defense Property and Accountability System.

The Principal Deputy Director, DLA, generally concurred with the recommendation, and stated that he will direct the Distribution Depot Region West to perform a complete inventory of its property, plant, and equipment and report the real property assets on the financial statements. He stated that the Defense Fuel Supply Center will continue to capitalize minor construction costs and the real property associated with Government-owned-contractor-operated fuel terminals. He also stated that a mechanism will be established to ensure that reliable data on capital assets are entered into the Defense Property Accountability System. However, he did not agree that all of the real property used by the Defense Fuel Supply Center should be reported on the financial statements. He stated that the Defense Fuel Supply Center does not control military fuel terminals and pipelines. Therefore, the Defense Fuel Supply Center does not control who derives the benefit from these assets, when the benefit is derived, and under what conditions it is derived, as required by DoD 7000.14-R. This issue was referred to the Under Secretary of Defense (Comptroller) for resolution.

IG, DoD, Report No. 97-112, "Air Mobility Command Financial Reporting of Property, Plant, and Equipment," March 19, 1997. The report states that the Air Mobility Command and the Defense Finance and Accounting Service Denver Center did not take action to properly account for and report on financial statements the PP&E used in the Air Mobility Command operations. We recommended that the Commander, Air Mobility Command, in conjunction with the Defense Finance and Accounting Service, implement the policies, procedures, and controls outlined in DoD 7000.14-R, which are necessary to obtain and maintain financial data that accurately reflect the values of PP&E accounts. The Deputy Assistant Secretary of the Air Force, Financial Operations; the Director, Financial Programs and Financial Analysis, U.S. Transportation Command; the Comptroller, Air Mobility Command; and the Deputy Director for Accounting, Defense Finance and Accounting Service generally concurred with the recommendations. Management initiated actions to improve the Air Mobility Command's financial reporting of PP&E by implementing a property accountability system.

Appendix B. Summary of Prior Coverage

IG, DoD, Report No. 97-097, "Capitalization of Software Developed for the Distribution Standard System," February 19, 1997. The report states that DLA did not properly capitalize \$57.8 million of software that it had developed for the Distribution Standard System. As a result, the FY 1995 financial statements for the DLA Defense Distribution Depots business areas were materially understated. To improve the reliability of the financial data, the IG, DoD, recommended that the Director, DLA, establish procedures to comply with policy in DoD 7000.14-R on the capitalization of software development. The Director, DLA, concurred with the recommendations and has begun to capitalize Distribution Standard System software development expenses.

IG, DoD, Report No. 94-163, "Management Data Used to Manage the U.S. Transportation Command and the Military Department Transportation Organizations," June 30, 1994. This report discloses that data needed to control physical assets such as property records, purchase orders, and invoices were generally available but not always used. However, despite availability, USTRANSCOM entities did not use the data to maintain financial control of assets. The report scope did not address MTMC PP&E because of its low dollar value relative to other USTRANSCOM entities.

U.S. Army Audit Agency Report No. NR 94-457, "Defense Business Operations Fund FY 92 Financial Statements," March 30, 1994. This report states that Army policy did not require MTMC to retain sufficient evidence to support the total value of property, plant, and equipment and that internal controls were not adequate to ensure that assets were financially safeguarded or costs were properly recorded. The Army Audit Agency recommended that the Army require the retention of supporting documentation for fixed-asset values until the assets are disposed. In addition, the report recommended that all Army organizations be notified of the change in policy and be required to retain documentation for recorded fixed-asset values. Management concurred with the recommendations.

U.S. Army Audit Agency Report No. NR 94-456, "Defense Business Operations Fund, Transportation, Army FY 92 Financial Statements, Report of Management Issues," March 30, 1994. This report states that MTMC understated its capital assets by \$34 million because MTMC personnel:

- o did not capitalize improvements;
- o were late submitting documentation to the finance and accounting office;
- o relied on the asset ledger reconciliation process, which was not working; and
- o classified capital assets as inventory.

Corrective actions were generally taken during the audit. The Army Audit Agency recommended that MTMC report late submission of source documents from logistics organizations as a material weakness in its next annual assurance statement. The Army Audit Agency also recommended that MTMC identify

Appendix B. Summary of Prior Coverage

planned corrective actions and set milestones for completing the actions and follow up to ensure that corrective actions were taken. MTMC concurred with the findings and the recommendations and stated that corrective actions would be initiated.

U.S. Army Audit Agency Report No. 93-462, "Defense Business Operations Fund Transportation, Army, Report of Financial Audit," June 30, 1993.

This report states that the Army Audit Agency could not express an opinion on the FY 1992 Statement of Financial Position because Army policy did not require the retention of sufficient evidence to support the reported value of PP&E and because management and legal representation letters were not received. The Army Audit Agency further reported that internal controls were inadequate to ensure that assets were under financial control or that costs were properly recorded. For instance, about 1,100 cargo containers, valued at about \$12 million, were transferred from an Army command to MTMC but were not reflected in the financial statements. The Army Audit Agency observed that the process to report asset additions, deletions, and changes was not effective. The report made no recommendations.

Appendix C. Report Distribution

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House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and
 Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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Part III - Management Comments

Military Traffic Management Command Comments



DEPARTMENT OF THE ARMY
HEADQUARTERS, MILITARY TRAFFIC MANAGEMENT COMMAND
5611 COLUMBIA PIKE
FALLS CHURCH, VA 22041-5056



REPLY TO
ATTENTION OF

MTCS (36-2b)

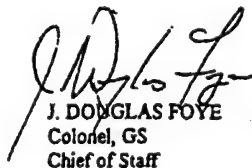
14 NOV 1997

MEMORANDUM FOR Director, Finance and Accounting Directorate, Inspector General
400 Army Navy Drive, Arlington, VA 22202-2834

SUBJECT: Response to Draft Report on Military Traffic Management Command Financial
Reporting of Property, Plant, and Equipment (Project No. 5FJ-2011)

1. The Military Traffic Management Command (MTMC) agrees with the reported finding and recommendation to complete an inventory of Property, Plant, and Equipment (PP&E) and reconcile the results with the Defense Finance and Accounting System (DFAS) records.
2. We appreciate the favorable comments included in the report on our ongoing efforts to accurately report our financial data. The reconciliation of logistical and PP&E records will continue. The command is currently implementing directed base realignment and closure (BRAC) and other reengineering actions. BRAC events have a significant impact on the PP&E and preclude completion of the recommended inventory at this time. We anticipate completing a full PP&E inventory during the year 2000.
3. DFAS has corrected the out of balance conditions identified in the draft Report.
4. MTMC point of contact is Mr. Mark Mandel, Acting Chief, Managerial Accounting Office, Resource Management Directorate, 703-681-3464.

FOR THE COMMANDER:


J. DOUGLAS FOYE
Colonel, GS
Chief of Staff

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

NOV 21 1997

DFAS-HQ/AFC

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Audit Report on Military Traffic Management Command
Financial Reporting of Property, Plant, and Equipment
(Project No. 5FJ-2011.04)

Our comments to the subject report are attached.

If additional information is required, my point of contact
is Ms. Ethel Pulliam on (703) 607-1578.

Edward A. Harris
Edward A. Harris
Deputy Director for
Accounting

Attachment:
As stated

**Audit Report on Military Traffic
Management Command Financial Reporting
of Property, Plant, and Equipment
(Project No. 5FJ-2011.04)**

Recommendation 2: We recommend that the Director, Defense Finance and Accounting Service Denver Center, research the adjustments to Military Traffic Management Command property, plant, and equipment accounts and take corrective actions to ensure that the property, plant, and equipment subsidiary ledgers support the information reflected in the general ledger accounts.

DFAS Response: Concur. However, the Military Traffic Management Command (MTMC) must perform a complete inventory of its property, plant, and equipment (PP&E) before the recommended actions involving the reconciliation of subsidiary and general ledgers can occur. Additionally, if a complete inventory is performed by the MTMC as recommended, the results of the inventory will reveal any differences between subsidiary and general ledger accounts. Upon completion of the inventory, the DFAS will direct the Omaha operating location, where the accounting work is performed for the MTMC, to ensure that the PP&E subsidiary ledgers support the information reflected in the general ledger accounts.

Estimated Completion Date: 30 days after the MTMC inventory.

Attachment

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

F. Jay Lane
Salvatore D. Guli
James L. Kornides
John K. Issel
Terry D. Holdren
Karen Bennett
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment

B. DATE Report Downloaded From the Internet: 09/27/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 09/27/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.